MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

SUPPLEMENTARY EXAMINATION

TRIMESTER 1, 2015/2016

BAC 3654 – PROFESSIONAL ETHICS

(All sections / Groups)

17 NOV 2015
2.30 PM – 5.30 PM
(3 HOURS)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 5 pages with 4 Questions only (excluding the cover page)

2. Attempt ALL questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

Question 1

Several years ago, World Justice, a well-known NGO, published a report on the activities of three major food companies in their marketing of manufactured baby foods in some of the poorer developing countries. The report, provocatively called 'Killer Companies', said it had evidence that the three companies were 'aggressively mis-selling' manufactured baby food products in these poorer countries. It was argued in the report that several problems arose with the use of these products in poorer countries which negatively affected the health of the babies, with many babies reportedly dying as a result. The problems include insufficient and inadequate preparation instructions on the product. Doctors often advised against the use of these products for babies because natural feeding solutions were considered safer and more beneficial in most cases.

When the 'Killer Companies' report was published, it was widely reported upon and received a lot of social and political attention. Two of the three companies named in 'Killer Companies' immediately decided to withdraw its product from the business but the third company, Xana Company (Xana hereafter), recognised what it believed to be an opportunity to take the market share left by the other two. It set about increasing its production capacity accordingly. When asked by journalists why Xana had not also withdrawn from the criticized business activity, the chief executive issued a press statement saying

" it was a profitable business opportunity and, as the steward of shareholder value, he owed it to the shareholders to maximize their returns".

When it became widely known that Xana had decided to expand and develop its baby food business in poorer developing countries, Parents Who Care (PWC), a national charity concerned with infant nutrition, organised a campaign against Xana. PWC encouraged the public to boycott a wide range of Xana products in addition to the baby food products. PWC members started to use the phrase, 'Xana kills babies' in the hope that it would become widely adopted.

A large proportion of issued shares in Xana were held by institutional investors. Some of these institutional shareholders began to feel concerned about the baby food issue. One prominent fund manager, Hugh Wright, organised a meeting for institutional shareholders and managed to garner the support of 50 such members. This group became known as the 'Wright Group'. Although all members of the Wright Group wanted to retain their holdings in Xana because of the otherwise good returns, a number of questions were framed which they decided to put to the Xana management:

(i) Could the company explain its strategic logic of pursuing the baby food business in poorer developing countries?
(ii) Was the board concerned about potential reputational damage with phrases such as 'Xana kills babies' being used widely and in the media?
(iii) Would the Xana board consider withdrawing from the baby food business in poorer developing countries because of the alleged health impacts on children in those countries?

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The company issued a statement that the company focused on activities that provided the most profit to shareholders regardless of the effects on other claims against the company strategy. Second, the board was not concerned with reputation risks because it believed that these were 'temporary concerns' which would soon be forgotten. Third, the board would not withdraw from the baby food market in those countries because, with the loss of two competitors, profit margins were likely to be higher and competition less. However, the Wright Group expressed its dissatisfaction with this reply and said it might seek to influence the appointment of non-executive directors (NEDs) to the Xana board to increase the scrutiny of the executive members and their discussions on the subject.

Hugh Wright told the group that he felt the board of Xana lacked balance. He said that, although profitable and a good employer in its home country, the non-executive scrutiny of company strategy had been poor for some time and the board had no meaningful sense of ethics at all. He believed that all of the executive board was dedicated to the mission to produce what he called 'profit at any social cost'. He further believed that none of the non-executive board members was strong enough to question the strategy and raise the problem of baby food as an ethical issue. It was this lack of non-executive scrutiny which Hugh Wright believed was a major cause of Xana's unwillingness to reconsider its baby food activity. He had noticed the company becoming more inward-looking and self-reliant in recent years which was not a good trend. In addition, he expressed concerns, on behalf of the Wright Group, about the strategic management of Xana and his belief that the board lacked concern for medium-term business risks brought about by the baby food marketing.

As World Justice and PWC continued their campaigns against Xana, some other groups became aware of the baby food situation in poorer developing countries. A television programme reported how Xana products were actually being used in some of the poorer countries. It claimed to confirm the problems highlighted in 'Killer Companies' and it highlighted a number of other Xana products which consumers might stop buying if they wanted to put pressure on Xana's management to change their policy on baby food.

Partly in response to these pressures, the Xana board decided to consider two new initiatives. The first of these was to consider introducing a corporate code of ethics. By carefully drafting this and placing it prominently on its website, the board believed that it could achieve a number of favourable outcomes including improving its reputation.

The second initiative was to commission a private research in response to the negative publicity it experienced so far. The findings showed that the baby food business was damaging Xana's reputation and possibly the willingness of some talented people to apply for jobs with the company. Political support for other company plans had also suffered, such that a recent planning application to set up a new factory by Xana, in a business area with no connection with baby food, had received opposition. Protestors, mainly local activists and PWC members, opposed the application with placards saying 'Xana kills babies'.

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Required:

a) The underlying principles of corporate governance include transparency, judgement and reputation. Explain these three terms and assess the Xana board's performance against each one.

(9 marks)

b) Explain the purposes of a corporate code of ethics and examine how the adoption of such a code might make Xana reconsider its marketing of baby food in poorer developing countries.

(11 marks)

c) Discuss the reasons why the Wright Group should attempt to intervene in the governance of Xana following the events described in the case.

(5 marks)
(Total 25 marks)

Question 2

The discussion between Johan the Chief Executive Officer and Ahmad, the Chief Financial Officer, a professional accountant was getting heated. Sales and margins were below expectations. In a few weeks' time, a credit rating agency will be coming over to rate their new bonds issue of a few million dollars.

"Look, Ahmad we must not show such dismal results to them. We will definitely get a low quality rating. And that means offering the bonds at a higher interest rate and it would cost our firm millions of dollars more in interest payments. Do you want that to happen?"

"But Johan, that's the real picture of our financial health!"

"We can't afford such high interest payment especially now – tight cash flow and what happens if the Board came to know about this – we will not get the proposed stock options. Ahmad, we must make our quarterly numbers! Find a way, change some assumptions, capitalize some line expense – just do it, Ahmad. You know things will turn around next year".

Required:

What should Ahmad consider in making his decision? Your answer should include

a) two ethical issues faced by Ahmad.

(2marks)

b) Four stakeholder groups affected by the proposed action and their interests.

(8 marks)

c) 5- Question approach.

(8 marks)

d) A philosophical approach such as expected motivations, virtues and character traits.

(7 marks)
(Total 25 marks)
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Question 3

Mr. Kapurina Chadda, an entrepreneur started his new business in advertising industry with a strong emotional attachment to it. He worked very hard to keep this business afloat and viable. He wanted this business to keep growing by whatever means and ways.

Previously, Mr. Kapurina worked as the general manager for a communication company in Singapore. He was considered a creative and idea generating person. He contributed tremendously to the communication company. In 2010, Kapurina left this communication company in order to set up his own advertising company namely Kapurina Communications. But the recession hit him hard. Even though, he was working extremely hard to get new clients while investing in this new business.

Soon he realized that he is going to face bankruptcy in this business. He took a loan from a local bank by mortgaging some land he got as ancestral property and sold some of his valuable personal belongings. Despite all these efforts, he still suffered from cash flow problem. He decided to engage in a once-off project that would earn him RM700,000. The project was to smuggle about 60 kilogram of marijuana from Afghanistan to some countries in South East Asia. With three other smugglers, Kapurina was arrested by police in one of the borders of South East Asian countries and all four were charged with drug trafficking. On February 12, 2012, Kapurina was sentenced for two years in prison for conspiracy to import marijuana.

It was really difficult to understand why would a clever advertising person got engaged in such a foolhardy plan. Later on, in an interview with one of the leading Asian TV channels, Kapurina revealed that he was very desperate to make a success of his great business in the short run. However, he overlooked the ramifications of his foolish act. At the same time, his ego did not allow him to believe that his business was failing. He narrated "I felt it was up to me to turn things around and I tried to do everything myself." Furthermore, he had isolated himself from his friends and relatives. "I neither asked any help from them nor any opinion about my business situation. I just did it".

After his arrest, Kapurina regretted for the stupidity of his actions and cooperated fully with the local police and other authorities. He has freely admitted his mistakes and crime and how this event has changed his life. He said "I have had humility slap me in the face, and I want to stay accountable to it and move forward."

Required:

a) Which philosophical principle(s) did Kapurina ignore when deciding to smuggle marijuana in order to generate cash flows for his business? Explain that philosophical theory with an example. Also explain, any **THREE** limitations of that philosophical theory?

(12 marks)

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b) Assume that after Kapurina serves his two years sentence, he starts another advertising agency with a new partner. The question here is whether Kapurina is under any ethical responsibility to hide his criminal past from the new partner before they form their partnership?

(3 marks)

c) Discuss why an entrepreneur might become overly committed to his/her business to the point of intentionally engaging in an illegal activity?

(6 marks)

d) Explain, how does a company's senior executive demonstrates virtue when dealing with unhappy or disgruntled shareholder in annual general meeting.

(4 marks)
(Total 25 marks)

Question 4

a) The Malaysian Institute of Corporate Governance organized its annual conference in 2013. Mr. Abdualal Rahmed, CEO of Selangor Plastic Company, was one of the speakers in this conference. The theme of the conference was "Threats to good governance and accountability". In that context, Mr. Rahmed made the following statement. He stated

"The assumption that employees and managers will automatically be motivated to behave as the owners want is no longer valid. People are motivated by self-interest than in the past, and are likely to come from different cultures that emphasize different priorities of duty. As a result, there is greater need for clear guidance and for identifying and effectively managing threats to good governance and accountability."

Required:

Considering the above statement, explain **THREE** significant threats to good governance and accountability.

(15 marks)

b) How can a corporation integrate ethical behavior into its reward and remuneration schemes? Explain with an example.

(6 marks)

c) Explain, in what situations, it may be considered the best to use the three ethical decision making approaches namely, 5-Questions Approach, Moral Standard Approach, and Pastin's Approach?

(4 marks)
(Total 25 marks)

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